

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on February 15, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Senate Bill 303, 2/7/2001;
Senate Bill 411, 2/7/2001;
Senate Bill 388, 2/7/2001
Executive Action: Senate Bill 303 Pass as
amended 8-0

HEARING ON SENATE BILL 411

Sponsor: SENATOR SAM KITZENBURG, SD 48, Glasgow

Proponents: Mike Allen, Allen Oil Company, Helena; former Governor Tim Babcock, Helena; Bob Gilbert, Montana Petroleum

Marketing Association; Bob Stephens, Montana Grain Grower's Association; Andy Parker, MSU student intern for SENATOR KITZENBURG; Betty Whiting, Montana Association of Churches

Opponents: None

Informational Witness: Jim Curry, Director of Department of Transportation

Opening Statement by Sponsor: SENATOR KITZENBURG presented the bill. He said this would make Ethanol a reality in Montana. **EXHIBIT (tas38a01)** When you make Ethanol a reality, you provide jobs, better gas, cleaner air and value added agricultural products. He said it was time for an ethanol plant in Montana. The problem that needs to be addressed is buying it at the pump. This bill will offer an incentive to retailers to put one Ethanol pump at every gas station in Montana. This bill offers an incentive of 200% of the cost of installation for the average retailer.

Proponents' Testimony: Mike Allen, President of Allen Oil Company, spoke as a proponent. Ethanol is right as it is a good way to involve farmers, it is good for your car and the environment. It is important to build an Ethanol plant. Any problems identified in the fiscal note will be overcome because there will be more income from truckers, more grain going into the plants, jobs and property taxes. Now the reason we don't have ethanol is the oil companies. It takes 10% of their profit away at the pumps. They will say it changes the composition of the gasoline, which it does - for the better.

Governor Tim Babcock described the 13 new Ethanol plants that were built in the Minnesota, North Dakota area. This product is value added for agricultural commodities. Vehicles can be purchased that are equipped with flexible fuel. The performance is excellent, they are clean burning and adds to the octane. It is a fuel of the future, helps agriculture and the industry.

{Tape : 1; Side : A; Approx. Time Counter : 15.5 - 18.7}

Bob Gilbert, Montana Petroleum Marketing Association, supported the bill. He said there was no sense in producing the product in Montana if it is not made available to the citizens. It is a subsidized product. The proof of cost is required in order to get the 200% reimbursement. It is not ongoing. Once they are reimbursed that stops. There is a finite number of stations that will put this product in. ***{Tape : 1; Side : A; Approx. Time Counter : 18.7 - 21.6}***

Bob Stephens, representing Montana Grain Growers Association, spoke in support of the bill. He described a large plant proposed near Conrad that would be a slaughter house and ethanol plant. If this bill passes it will be a boost for farmers.

Andy Parker, student intern from Montana State University, spoke as a son of a barley farmer in Sun River Valley. He felt having ethanol at any station would get people used to seeing it and interested in using the product. Barley farmers would appreciate having another market so they are not limited to just Anheuser-Busch.

Betty Whiting, Montana Association of Churches, urged passage of the bill. She said this was a long term program that was worth considering and she liked a business that would help the agricultural industry.

Opponents' Testimony: None

Informational Witness: **Jim Curry**, Deputy Director Department of Transportation, said the intent of the bill was good. It would have an impact on the state highway revolving fund. This fund is important to maintain so the department can match federal funds and be able to take care of highways and the Highway Patrol. He felt this bill could impact the fund balance negatively. *{Tape : 1; Side : A; Approx. Time Counter : 25 - 30}*

Questions from Committee Members and Responses: **SENATOR BOHLINGER** asked what a retailer in Billings would sell ethanol per gallon. **Mr. Allen** replied 1.399, which was the same price as unleaded. He said the price of gasoline was all based on crude oil. The price of ethanol would be more competitive if processed in Montana versus trucking the product for 800 miles.

SENATOR BOHLINGER asked if the sponsor would consider reimbursing the retailers 100% as opposed to 200% of the cost in order to bring the fiscal note down. **SENATOR KITZENBURG** said that would be possible. **EXHIBIT(tas38a02)**

SENATOR ELLIS asked what ethanol did to the octane level. **Mr. Allen** said it would raise the octane three points. The ratings of gasoline was 91, 87 and 85.5. The ethanol could replace the center tank easily at very little cost. He explained that the 85.5 octane unleaded had no additives. When you get to the mid-grade and the premiums they add MTVE, which is methanol derivative product and it is very corrosive. They also add oxygen so it thins the air out. It is also very dangerous to ground water.

SENATOR COLE asked about the special funds and whether the balance was dropping. **Mr. Curry** said the point he was trying to make was the taxable gallons in the first two quarters of the current fiscal year were significantly lower than a year ago at this time. The first quarter they thought the fire season had an impact on tourism. The second quarter actually dropped more, which was a concern as they were not aware of any issues that would cause this. Maybe it was tied to the economy or the price of fuel. There were a lot of taxable gallons collected late in the year. Current projections from the last two quarters, in 2005, the working capital balance of the State Special Revenue Fund will be \$4.5 million dollars. Anything that happens in the Legislature that adds impact to the Highway State Special Revenue Fund, is going to start chipping away at that \$4.5 million dollars. If this continues over five years, this fund will be broke in 2005. There are no anticipated fuel tax increases in the future, so the goal is to manage this fund for its long term viability in order to match federal funds that come in. That is the concern. *{Tape : 1; Side : B; Approx. Time Counter : 0 - 10.4}*

SENATOR EKEGREN asked why Exxon would not allow ethanol. **Mr. Allen** described the process in petitioning Exxon. He described the costs of remodeling the tanks. The costs of replacing the tank, lines, excavation, pump and decals cost \$18,800. However, people would not tear up new facilities to put in a tank and a pump to sell ethanol blended fuel. More than likely, they will take an existing tank and change it over. *{Tape : 1; Side : B; Approx. Time Counter : 17.3 - 22}*

Closing by Sponsor: **SENATOR KITZENBURG** closed. He said this would result in cleaner air. This will allow Montanans to have a choice for better fuel. *{Tape : 1; Side : B; Approx. Time Counter : 29.5 - 30}*

HEARING ON SENATE BILL 303

Sponsor: **SENATOR DON HARGROVE**, SD 16, Gallatin County

Proponents: Steve Pilcher, Montana Stock Growers; Carl Schuller, Manhattan Farmer and Open Lands Board Member; Grace Morgan, Open Lands Board; Norman Eggers, Gallatin County resident; Verna Lou Landis, Open Lands Board member; Sunny Mavor, business owner; Tim Davis, Executive Director Montana Smart Growth Coalition; Terry Conner, Gallatin County Open Lands Board and FWP biologist; Roger Halver, Montana Association of Realtors; Devan Sorely, Gallatin County business owner; Gordon Morris, MACO; John Vincent,

**Gallatin County Commissioner and former Speaker of the House;
Nancy Schlepp, Montana Farm Bureau; Mona Jamison, Gallatin County**

Opponents: None

Opening Statement by Sponsor: SENATOR HARGROVE described the growth potential in the state, which could be similar to Gallatin County. He noted that Gallatin County had the best economy in the state. Tools, such as the Subdivision and Platting Act, could be used for the challenge of rapid growth but dollars that were market and incentive driven seemed to work the fastest. Gallatin County passed an open space bond issue of \$10 million dollars. He distributed the election result diagram which included a map of the county. **EXHIBIT(tas38a03)** He also handed out an amendment to the bill. **EXHIBIT(tas38a04)** He proceeded to explain the map. The green sections are the voters who voted in the bond issue. The dark red reflects farm ground and they did not vote for the bond. The folks in the green area are willing to pay for it. The folks in the red areas aren't doing that well anyway. The agriculturalists don't have to pay off the bond issue, the other people want to. **{Tape : 2; Side : A; Approx. Time Counter : 2.2 - 9.8}**

Proponents' Testimony: Mike Lane, a rancher and Open Lands Board member, spoke in favor of the bill. He explained the Open Lands Board was created by the County Commission to advise them on the best way to preserve open space by using incentive based methods rather than regulations. Fifteen citizens were appointed to the board with eight seats reserved for agricultural members. The commissioners wanted to make sure that the people who were supplying the open space would be represented. He handed out additional letters from area ranchers in support of the bill. **EXHIBIT(tas38a05) EXHIBIT(tas38a06)** He said **Steve Pilcher**, representing the Montana Stock Growers, also wanted to go on record in support of the bill.

Carl Schuller, Manhattan farmer and member of the land board, described concerns over the bond issue that they not burden farmers and ranchers who were already dealing with low commodity prices.

Grace Morgan, member of the Gallatin County Open Space Board, pointed out the land was already part of working ranches. These folks were trying to support themselves against great odds. Growth in the county had been so rapid that it was driving the price of the land up and forcing agricultural producers to sell if they have no alternative. The open space bond will offer those alternatives. This bill will only pertain to counties in

Montana who have passed an open space bond or will in the future.
{Tape : 2; Side : A; Approx. Time Counter : 15 - 16.4}

Norm Eggers, resident of Gallatin County for 34 years, and member of For Parks group, a group that identifies land for regional parks. He described a survey that identified 78% of those surveyed felt the acquisition of parks as an important use of the bond money. The passage of this bond measure will help purchase a 100 acre regional park before the land prices become prohibitive. It is feared that soon most of the land will be removed from agriculture and developed into housing and industrial use. An important part of such a park would be a major exhibit on Gallatin County and Montana's agriculture heritage, modeled after Butte's World Mining Museum - a twenty acre exhibit. It is not the intention of the bond supporters to include active agriculture industry in the financing of the open space. Active farms and ranches will preserve the open space.
{Tape : 2; Side : A; Approx. Time Counter : 16.4 - 18.7}

Verna Landis, said she lived in Sudan in the North Bridgers, thirty miles north of Bozeman. Her family had been cattle ranchers for 52 years. She was in support of the bill. Agriculture is feeling the pressure from growth and county taxes. Prime agriculture land seems to be the target of development. Development costs more in public service than it provides in local tax revenue. One of the purposes of the Open Land Board is to take pressure off of agriculture. **{Tape : 2; Side : A; Approx. Time Counter : 18.7 - 19.9}**

Sunny Mavor, a business owner who employed 23 people and Chairperson of the open space group, spoke in favor of the bill. She described the composition of the board. She said she was the granddaughter of a rancher whose farm lands were now subdivided. She felt it was a very sad thing for their family and she did not want to see this happen in Gallatin County. The unprecedented growth in Gallatin County was harmful to the open space that was left in the area. This bill will support the agricultural producers. **{Tape : 2; Side : A; Approx. Time Counter : 19.9 - 21}**

Tim Davis, Executive Director of Smart Growth Coalition, supported the bill. He said growth was an issue all over central and western Montana. An open space bond is just one tool that communities have to help agricultural land stay in agriculture.

Terry Lonner, presented written testimony. He was a member of the Open Lands Board and a retired wildlife biologist.
EXHIBIT (tas38a07) He distributed a letter from Mary Vant Hull, a former Bozeman City Commissioner. **EXHIBIT (tas38a08)**

Roger Halver, Montana Association of Realtors, spoke in support of the bill.

Devon Sorlie, a business owner and member of the Open Lands Board and the Gallatin County Planning Committee, spoke in favor of the bill.

Gordon Morris, MACO, stood in support of the bill.

John Vincent, Gallatin County Commissioner and former Speaker of the House, endorsed the bill and the open land issue. He pointed out the cross section of people in the community that supported the bill. This protects farmers and ranchers from an increase in taxation. **{Tape : 2; Side : A; Approx. Time Counter : 21 - 30}**

Nancy Schlepp, representing the Montana Farm Bureau, supported the bill. **{Tape : 2; Side : B; Approx. Time Counter : 0 - 1}**

Mona Jamison, representing Gallatin County, said the amendment was important to clarify that agricultural lands are preserved and exempt from paying for this bond.

Opponents' Testimony: None

Questions from Committee Members and Responses: **SENATOR ELLIS** noted this issue had application in every county in the state of Montana. **SENATOR HARGROVE** said the idea was a result of the shared interest of all these people in maintaining the agricultural heritage and open space. Ag lands produce more in taxes than developments do. Developments use up money.

SENATOR ELLIS asked how much money was involved. **Mr. Vincent** clarified the vote was actually a bond authorization. No one can foresee the total of \$10 million dollars being authorized at any given time. Most likely, this will be distributed over time as the Open Lands Board and the County Commission agree to certain land acquisition proposals. The bonding has already been authorized but they are anticipating floating \$1 million dollar bond on occasion, depending on the validity of the proposals that come before the board. **{Tape : 2; Side : B; Approx. Time Counter : 1 - 4.9}**

SENATOR ELLIS asked about the taxable value of Gallatin County. **Mr. Vincent** distributed a taxable value chart which totaled \$117,796,890. **EXHIBIT (tas38a09)**

Closing by Sponsor: **SENATOR HARGROVE** closed. He stressed that farmers and ranchers want to stay on their land but they need incentives so they don't develop into subdivisions.

HEARING ON SENATE BILL 388

Sponsor: **SENATOR JON ELLINGSON**, SD 33, Missoula

Proponents: **Betty Whiting**, Montana Association of Churches;
Sharon Hoff-Brodowy, Montana Catholic Conference; **SENATOR JOHN BOHLINGER**

Opponents: None

Opening Statement by Sponsor: **SENATOR ELLINGSON** presented the bill. He explained this was another choice on the earned income credit. He said he was not comfortable with this variation of the legislation. One problem was the \$19 million fiscal note and the granting of the credit based on what you would be entitled to. He felt this approach was complex and **SENATOR BOHLINGER** had a more sensible approach. There was one suggestion of reimbursement from TANF funds for the refundable portion of the earned income tax credit received by TANF participants. The amount available was \$637,000. This money could be provided for **SENATOR BOHLINGER'S** bill to minimize the fiscal impact. *{Tape : 2; Side : B; Approx. Time Counter : 4.9 - 19.7}*

Proponents' Testimony: **Betty Whiting**, Montana Association of Churches, testified in support of the bill. She mentioned **Sharon Hoff-Brodowy** of the Montana Catholic Conference was also supporting the bill. She described the Summary of Income Tax Credits. **EXHIBIT (tas38a10)** She pointed to the wage gap where the top people continually get more wages and the people who do the work, such as the secretaries, remain flat. A lot of people have been working to get more jobs in Montana when the fact remains there are a lot of jobs in Montana. She described the low wages for even skilled workers in the state. This legislation invests in people. There are 66,000 households eligible to receive money here in Montana. She discussed statistics where this legislation would be targeting the very poor. *{Tape : 2; Side : B; Approx. Time Counter : 19.7 - 26.9}*

SENATOR JOHN BOHLINGER testified in favor of the bill. He felt this was a moral and just thing to do. Earned Income Tax Credit provides an incentive for the poor to pursue work. It allows them to recapture that 7.5% of the wage that is taken from them for social security benefits, a benefit that at some future day

they may live to enjoy. They need that money to live on right now. He said that both bills, SB 220 and SB 388, should be merged.

Opponents' Testimony: None

Informational Testimony: Carol Bondy, Department of Public Health and Human Services, said the federal government does support the use of the Earned Income Tax Credit and the use of federal funds such as the Temporary Assistance for Needy Families Block Grant. The regulations of the grant state that those funds have to be used for eligible families. *{Tape : 3; Side : A; Approx. Time Counter : 6.2 - 11.9}*

Questions from Committee Members and Responses: SENATOR STONINGTON asked about supplementing from the general fund. SENATOR ELLINGSON said that would not be realistic. However, if the TANF available funds were melded into SENATOR BOHLINGER's bill it would help the fiscal impact.

Closing by Sponsor: SENATOR ELLINGSON closed. He said it was useful to have several approaches to the same problem and good ideas could be saved. *{Tape : 3; Side : A; Approx. Time Counter : 11.9 - 13.6}*

EXECUTIVE ACTION ON CONCEPTUAL BILL

SENATOR GLASER noted the problem encountered by Fallon County with SB 184. They have oil and gas money and they distributed it in the county and school districts. Because of the impact of SB 184 and the floating mills, they are in a cycling situation where one year they have to assess a lot of money and the next year they don't. They are in a huge cycle up and down on the way they distribute the money from oil and gas. They concluded that by averaging this distribution over three years it would alleviate that problem. The only way to do that is with a committee bill in this Session. The bill solves the problem in one county. He stressed this would be an option and not mandatory. SB 184 said you had to distribute according to the mills. In the previous year, SB 184 took the snapshot - that is the year you are looking back at. The previous year, the school district has a significant amount of revenue but didn't assess any mills. The next year they didn't get that money so all of a sudden they had to assess a bunch of mills. Now you have no mills, 50 mills, no mills, 50 mills and because the distribution of the oil and gas revenue goes back and mirrors the year before the distribution is uneven and causing a huge problem in that county.

CHAIRMAN DEPRATU suggested a committee bill come forward and that the committee vote. The question was called. The motion **PASSED** unanimously 8-0. *{Tape : 3; Side : A; Approx. Time Counter : 13.6 - 21.7}* (Invalid request because deadline passed.)

EXECUTIVE ACTION ON SENATE BILL 303

Lee Heiman distributed an amendment and said the title would need to be changed. **EXHIBIT(tas38a11)**

SENATOR STONINGTON MOVE THE BILL AND THE AMENDMENT. The question was called on the amendment. The motion was adopted 8-0. The question was called on the bill as amended. The motion **PASSED** 8-0 with **SENATOR EKEGREN** being absent.

ADJOURNMENT

Adjournment: 10:20 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas38aad)